FRIEDMAN'S INC et.al.
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($ in 000s)

Note 7 Tradename rights, net

Tradename rights are the costs capitalized for the "Friedman's Jewelers" rights, net of amortitzation. Friedman's also owns the rights to the phrase "The Value Leader". Crescent, for a fee, uses the phrase in its marketing and signage. It is management's opinon that the latter rights will have some residual value in the range of $50 to $100 thousand.

Note 8 Receivable/Investment in Crescent

The Receivable/Investment in Cresent is the remaining net book value of the loan and preferred stock investment in Crescent Jewelers, Inc. Crescent filed for protection under Chapter 11 on August 11, 2004 in the United States Bankruptcy Court for the Northern District of California. The recovery included for the purposes of this Analysis is based on proposals made and information provided by Crescent and/or its official committee of unsecured creditors in its Chapter 11 case as well as management's estimate of the ultimate recovery in Crescent's Chapter 11 case. The Debtors make no representations as to the accuracy of information provided by Crescent and/or its official committee of unsecured creditors. See the Disclosure Statement for the Debtors' affiliation with Crescent.

Note 9 Recoveries from Avoidance Actions

Debtors have identified certain pre-petition payments that might be subject to recovery in a Chapter 7 liquidation. This Best Interests Analysis assumes that a Chapter 7 trustee would seek to recover all such payments and they are listed in the following table. The schedule below shows management's estimate of recoveries, net of recovery expenses, that would be received after the beginning of Chapter 7 liquidation proceedings. It is anticipated that such recoveries will take place over approximately 2 years.

The outcome of any particular preference action is subject to a number of uncertainties. Moreover, the potential value of a preference action against a particular preference defendant ultimately is dependent upon the specific payment history and other facts and circumstances pertaining to that vendor and its relationship with the Debtors. It is therefore difficult to extrapolate generalized results for an entire class of preference claims from the individual circumstances of each case. The Debtors have not undertaken an exhaustive analysis of all potential preference claims in order to arrive at the estimates contained herein. Rather, the analysis undertaken by the Debtors for purposes of these estimates has been general in nature. The estimates contained herein therefore may be materially different from actual results achieved.

Component	Pre-petition payments	Recovery Rate Lower	Recovery Rate Higher	Impact on Unsecured Creditor Recoveries Lower	Impact on Unsecured Creditor Recoveries Higher
Payments Made During Preference Period	$ 36,081	10%	15%	$ 3,608	$ 5,412

Note 10 Other Litigation

This analysis does not consider any benefits which might accrue to the Estate as a result of actions that a Chapter 7 trustee might pursue against former Directors, Lenders, or Individuals. See the Disclosure Statement for information concerning the Joint Review Investigation.

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Note 11 Chapter 7 and Chapter 11 Administrative Claims

Chapter 7 Administrative Claims include corporate and store operations wind-down costs, professional fees, and Chapter 7 trustee fees. Chapter 11 Administrative Claims include all remaining unpaid expenses and obligations of the Debtors incurred during the post-petition period through the conversion date to a Chapter 7 case.

It is assumed that the creditor recovery process occurs over a twelve-month period. For purposes of the Analysis, corporate operating expenses include the corporate office, including distribution, and store related expenses. A nearly full complement of corporate expenses is assumed to be required during the first three months, with declining amounts of corporate expenses required in the following months and as stores close during the period. It is assumed, further, that there will be an additional compensation program designed to retain key employees during the liquidation period. In this high recovery scenario, corporate expenses are assumed to be lower than in the low recovery scenario.

For the deconsolidated approach, the administrative expenses have generally been allocated on the basis of each Debtor's externally generated asset recovery proceeds. No allocation was given for proceeds from intercompany receivables.

Chapter 7 Administrative Claims	1	2	3	Total	Phase
	1st 3 mos.	2nd 6 mos.	Final 3 mos.		
Payroll Expense					
Total Store Operations	$ 1,018	$ 509	$ -	$ 1,527	
Total Merchandising / Distribution	679	72	-	750	
Total Home Office	2,804	2,483	843	6,130	
Total	$ 4,501	$ 3,064	$ 843	$ 8,408	
Retention Incentives					
Executives	$ 290	$ -	$ 387	$ 677	
Accounting / Finance & Treasury	-	262	231	494	
All Other	-	181	183	364	
Total	$ 290	$ 444	$ 801	$ 1,535	
Other Operating Expenses					
Total Store Operations	$ 356	$ 178	$ -	$ 534	
Total Merchandising / Distribution	289	0	-	289	
Total Home Office	2,673	3,721	1,147	7,541	
Total	$ 3,318	$ 3,899	$ 1,147	$ 8,364	
Total Corporate Expenses (in high recovery scenario)	$ 8,110	$ 7,406	$ 2,791	$ 18,307	
(in low recovery scenario)	$ 8,920	$ 8,147	$ 3,070	$ 20,138	

Professional fees include Debtor counsel costs for claims resolution and court filings and are anticipated to be incurred throughout each of the phases, reducing in Phase III. They also include the costs for the engagement of counsel for the prosecution of avoidance actions and costs for the claims and disburseing agent.

The Bankruptcy Court allows a Liquidating Trustee to a fee based on the proceeds derived from the liquidation of assets of the Debtors' Estate. For this Analysis an assumed rate of 3% of gross proceeds has been used. Such a rate is consistent with other cases in this filing District.

	Recovery Lower	Recovery Higher
Estimated Proceeds	$ 131,431	$ 173,012
Total Claims		
Corporate Expenses	$ 20,138	$ 18,307
Professional Fees	5,474	4,977
Trustee Fees @ 3%	3,943	5,190
Total Chapter 7 Administrative Claims	$ 29,555	$ 28,474

Chapter 11 Administrative Claims

	Total	Freidman's Inc. Lower	Freidman's Inc. Higher	FI Stores Lower	FI Stores Higher	FL Partnership Lower	FL Partnership Higher	FCJV Holding	Friedman's Beneficiary Inc.	Friedman's Holding Corp	Friedman's Investments	Friedman's Management Corp
Reclamation Claims	$ 512	$ 327	$ 343	$ 144	$ 131	$ 41	$ 38	$ -	$ -	$ -	$ -	$ -
Trade accounts payable	63,929	40,802	42,835	17,984	16,405	5,143	4,689	-	-	-	-	-
Direct expense payable	10,846	6,923	7,267	3,051	2,783	873	796	-	-	-	-	-
Other Current Liabilities	19,518	12,457	13,078	5,491	5,009	1,570	1,432	-	-	-	-	-
KECP Severence Costs	12,180	7,774	8,161	3,426	3,126	980	893	-	-	-	-	-
Total	$ 106,985	$ 68,283	$ 71,684	$ 30,096	$ 27,454	$ 8,607	$ 7,847	$ -	$ -	$ -	$ -	$ -

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Note 12 Secured and Unsecured Claims

Secured Claims
The Term DIP Lender claim includes the $25.5 million advance received from Harbert Distressed Investment Master Fund, Ltd. ("Harbert") as part of the $125 million Debtor-In-Possession financing agreement approved by the Bankruptcy Court on May 26, 2005, a $1.9 million claim purchased by Harbert from Jewelry Investors II LLC as part of an approved settlement between the Debtor and the former Term Lender, and the $99.5 million revolving loan from Citicorp USA, Inc.

The 1st Mortgage is held by General Electric Capital Business Asset Funding Corp and is secured by the Debtors' headquarters located at 171 Crossroads Parkway in Savannah, Georgia

Vendor 2nd Liens represent the claims of certain vendors who have entered into the Prepetition Trade Vendor Program and are secured by substantially all of the assets of the Debtors. The amounts associated with the liens arise from shipment of merchandise to the Debtors substantially during calendar 2004. Such liens are subordinate to those of the Revolving and Term DIP Lender Claims. For the deconsolidated approach, the Vendor 2nd Liens have generally been allocated to approximate the proceeds generated by each Debtor from the collateral encumbered by the Vendor 2nd Liens.

For convenience, professional fee claims are displayed with the secured claims because the professional fee claims are the only expenses entitled to be paid directly from the carve-out from the secured creditors' collateral before the payment of other administrative claims.

Unsecured Claims
Unsecured claims include Chapter 7 and Chapter 11General Unsecured Claims:

	Total	Freidman's Inc.		FI Stores		FL Partnership		FCJV Holding	Friedman's Beneficiary Inc.	Friedman's Holding Corp	Friedman's Investments	Friedman's Management Corp
		Lower	Higher	Lower	Higher	Lower	Higher					
General Unsecured Claims												
Chapter 7 Lease rejection Claims	$ 23,223	$ 15,273	$ 15,273	$ 5,881	$ 5,881	$ 2,070	$ 2,070	$ -	$ -	$ -	$ -	$ -
Scheduled Unsecured Claims	34,177	34,000	34,000	-	-	-	-	-	-	-	-	176
Chapter 11 Lease Rejection Claims	7,291	4,964	4,964	1,568	1,568	759	759	-	-	-	-	-
Unliquidated and Disputed Claims	10,000	10,000	10,000	-	-		-	-	-	-	-	-
Total	$ 74,691	$ 64,237	$ 64,237	$ 7,449	$ 7,449	$ 2,829	$ 2,829	$ -	$ -	$ -	$ -	$ 176

Note 13 Vendor Lien Program

Both the substantive consolidation approach and the deconsolidated approach assume that the liens that secure repayment of obligations under the Prepetition Trade Vendor Program remain enforceable in accordance with their terms. In the context of a reorganization of the Debtors, the Court has already resolved this issue, finding that such liens are valid where the Debtors reorganize, pursuant to the order on the Motion to Authorize Debtors to Consent to Transfers of Participation Interests in Certain Secured Vendor Programs Claims, entered May 26, 2005 (Motion at Docket No. 595, Order at Docket No. 664).

In the event that a Chapter 7 trustee contests the vendor liens in the context of a liquidation, however, the issue has been reserved. If the liens are disputed, the Debtors believe that there will be substantially increased litigation and other expenses before any resolution of the issue. Without regard to the merits of any such litigation, in the event that the Chapter 7 trustee was successful in voiding those liens, then the proceeds allocated in the Best Interests Analysis to the vendor liens would instead potentially be available to pay claims of lesser priority (i.e., Chapter 7 and Chapter 11 administrative, priority and unsecured claims). It is management's opinion, however, that any such incremental proceeds would still be insufficent to provide any greater recovery to unsecured creditors, although the recovery available to pay Chapter 7and Chapter 11 administrative claims would be enhanced.

APPENDIX C

PRO FORMA FINANCIAL PROJECTIONS

Friedman's, Inc.

Financial Projections

Calendar Year 2005 through 2008

including Calendar Year 2004 unaudited, pro-forma financial results

The pro-forma financial information for Calendar Year 2004 has been restated from previously issued financial statements. The restated results are based on managements' analysis of those adjustments which were deemed appropriate and necessary to reflect the Balance Sheet as of fiscal December 2004 and the results from operations and cash flows for the calendar year then ended. The results presented for 2004 as well as for January through May 2005 are unaudited, and are subject to change.

The financial projections contained herein are those of the management of the Company and have not been audited or reviewed by an independent accounting firm in accordance with standards promulgated by the American Institute of Certified Public Accountants (the "AICPA"). If such an examination were conducted, certain matters might have come to the attention of management that would have caused different results to be presented.

While management believes that these financial projections are reasonable, management can provide no assurance as to the ultimate accuracy of the realization of the results reflected in this report. Moreover, there will usually be differences between projected and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material.

Friedman's, Inc.
Financial Projections
Income Statement Projection
($ in thousands)

	(Unaudited) Proforma Calendar 2004	Proj Calendar 2005	Proj Calendar 2006	Proj Calendar 2007	Proj Calendar 2008
Net Sales					
Net Merchandise Sales	$ 415,017	$ 350,789	$ 363,990	$ 380,243	$ 399,071
Diamond Bond & Gold Warrantees	19,846	22,730	24,093	26,572	30,944
Total Net Sales	434,863	373,520	388,083	406,815	430,015
Operating Expenses					
Cost of Goods Sold					
Merchandise	212,988	178,439	188,117	196,567	206,098
UNICAP	1,041	0	-	-	-
Shrink	5,924	4,147	3,500	2,925	2,304
Freight Out	1,540	1,766	1,594	1,674	1,758
Merchandise	221,493	184,351	193,210	201,167	210,160
Distribution / Merchandising Payroll	3,233	3,871	4,081	4,203	4,329
Occupancy	32,700	26,973	25,426	25,558	25,941
Total COGS	257,426	215,195	222,718	230,928	240,430
Gross Margin	177,437	158,324	165,365	175,887	189,584
Gross Margin %	*40.80%*	*42.39%*	*42.61%*	*43.24%*	*44.09%*
Selling, General & Administrative					
Salaries	110,481	85,899	84,526	86,455	89,049
Advertising	30,777	25,166	26,043	26,824	27,629
Other Direct	45,681	35,211	30,523	31,175	32,047
Total SG&A	186,939	146,276	141,092	144,455	148,725
Credit Operations					
Provision for Bad Debt	68,836	31,243	33,228	35,831	37,567
Finance Charge and Other	(49,537)	(26,387)	(29,904)	(32,547)	(33,449)
Total Credit Operations	19,299	4,856	3,325	3,284	4,118
Total SG&A and Credit Operations	206,238	151,132	144,416	147,739	152,843
Total Operating Expenses	463,664	366,327	367,134	378,667	393,273
EBITDAIR	**(28,801)**	**7,192**	**20,949**	**28,148**	**36,742**
Store Closing Costs	5,642	27,475	6,941	-	-
Investigation and Restructuring Fees	31,443	38,628	1,000	-	-
EBITDA	**(65,886)**	**(58,911)**	**13,008**	**28,148**	**36,742**
Depreciation & Amortization	12,822	14,836	4,921	5,503	6,244
Income from Operations	(78,708)	(73,747)	8,087	22,646	30,497
Interest & Other Fees	11,859	5,486	7,569	8,141	8,111
Loss on writedown of assets	13,712	-	-	-	-
Litigation Contingency	9,300	-	-	-	-
Other Income Taxes Expense	-	1,449	2,484	2,484	2,484
Net Income / (Loss) before Taxes	(113,579)	(80,682)	(1,966)	12,021	19,903
Income Tax Provision	14,803	28,711	698	(4,268)	(7,066)
Net Income / (Loss)	**$ (98,776)**	**$ (51,971)**	**$ (1,268)**	**$ 7,754**	**$ 12,837**

Friedman's, Inc.
Financial Projections
Balance Sheet Analysis
($ in thousands)

	(Unaudited) Proforma Calendar 2004	Proj Calendar 2005	Proj Calendar 2006	Proj Calendar 2007	Proj Calendar 2008
Current Assets:					
Cash and cash equivalents	$ 630	$ 5,000	$ 5,000	$ 5,000	$ 5,000
Restricted Sales Tax Account	-	-	-	-	-
Accounts Receivable, net	101,843	84,329	99,050	107,757	115,268
Net Inventories	113,318	85,240	102,230	110,553	113,661
Deferred income taxes	-	-	-	-	-
Other current assets	4,606	9,310	9,310	9,310	9,310
Total Current Assets	220,396	183,879	215,590	232,620	243,239
Net property, equipment and improvements	23,477	19,538	20,886	23,322	24,964
Other long term assets	24,830	53,358	54,056	49,788	42,723
Tradename rights, net	5,022	5,022	5,022	5,022	5,022
Receivable/Investment in CJ	-	-	-	-	-
Total Assets	$ 273,725	$ 261,797	$ 295,554	$ 310,752	$ 315,948
Liabilities					
Current liabilities:					
Trade accounts payable - Post-Petition	$ 52,446	$ 36,475	$ 38,592	$ 39,777	$ 43,542
Direct expense payable - Post-Petition	22,375	14,087	10,756	11,245	10,997
Vendor Agreements Payable	22,107	-	-	-	-
Fiduciary Sales Taxes Payable	4,565	8,076	8,530	8,927	9,343
Other Current Liabilities	36,980	19,071	19,145	19,344	21,234
Total current liabilities	138,473	77,708	77,024	79,293	85,116
Liabilities Subject to Compromise	-	120,681	125,109	125,109	125,109
Long term Liabilities:					
Bank of America credit line	0	-	-	-	-
Traunche B Loan	62,581	-	-	-	-
Debtor In Possession Financing	-	17,504	48,901	54,197	40,860
Junior DIP Term Financing	-	25,500	25,500	25,500	25,500
Mortgage	3,371	3,261	3,146	3,025	2,898
Deferred income taxes and other	-	(214)	(214)	(214)	(214)
Total long term liabilities	65,952	46,051	77,333	82,508	69,045
Total liabilities	204,425	244,441	279,466	286,910	279,269
Shareholders' equity (deficit):					
Class A Common stock, par value $.01, 40,000,000 authorized, 20,787,284 issued and outstanding	207	207	207	207	207
Class B Common stock, par value $.01, 7,000,000 authorized, 1,196,283 issued and outstanding	12	12	12	12	12
Additional paid-in capital	203,827	203,827	203,827	203,827	203,827
Retained earnings					
Beginning Retained Earnings	(35,779)	(134,555)	(186,526)	(187,794)	(180,040)
Period Income / (Loss)	(98,776)	(51,971)	(1,268)	7,754	12,837
Ending Retained Earnings	(134,555)	(186,526)	(187,794)	(180,040)	(167,203)
Shareholder notes receivable	(191)	(165)	(165)	(165)	(165)
Total shareholders' equity (deficit)	69,301	17,356	16,088	23,842	36,879
Total liabilities and equity	$ 273,726	$ 261,797	$ 295,554	$ 310,752	$ 315,948
	-	-	-	-	-

Friedman's, Inc.
Financial Projections
GAAP Cash Flow Projections
($ in thousands)

	(Unaudited) Proforma Calendar 2004	Proj Calendar 2005	Proj Calendar 2006	Proj Calendar 2007	Proj Calendar 2008
Net Income	$ (98,776)	$ (51,971)	$ (1,268)	$ 7,754	$ 12,837
Less: Loss on Disposal of Assets	12,951	-	-	-	-
Less: Depreciation & Amortization	12,822	14,836	4,921	5,503	6,244
Net income less non-cash charges	(73,003)	(37,135)	3,653	13,256	19,082
Cash Flow from Operations					
Change in Net A/R	57,129	17,514	(14,721)	(8,707)	(7,512)
Change in Net Inventory	23,685	28,078	(16,990)	(8,323)	(3,108)
Change in Deferred Income Tax	-	(4,087)	(698)	4,268	7,066
Change in Other Current Assets	(979)	(6,642)	-	-	-
Change in Other Long Term Assets	(12,582)	(22,503)	-	-	-
Change in Accounts Payable	(6,748)	50,294	(1,214)	1,674	3,517
Change in Vendor Agreements Payable	22,107	(4,443)	-	-	-
Change in Other Current Liabilities	8,321	10,554	4,502	199	1,890
Change in Shareholder Note Receivable	856	27	-	-	-
Change in Other Tax Liability	-	(214)	-	-	-
Change in Sales Tax Liability	(5,461)	3,511	455	396	416
Net Cash Flow from Operations	86,328	72,089	(28,666)	(10,493)	2,269
Cash from Investing Activities					
Capital Expenditures & Loss on Disposition	(6,445)	(10,897)	(6,269)	(7,938)	(7,887)
Net Cash from Investing Activities	(6,445)	(10,897)	(6,269)	(7,938)	(7,887)
Cash from Financing Activities					
Change in Mortgage	(104)	(109)	(115)	(121)	(127)
Borrow / (Repay) BofA Revolver	(0)	0	-	-	-
Borrow / (Repay) Farallon Term Loan	(16,218)	(62,581)	-	-	-
Borrow / (Repay) DIP Loan	-	17,504	31,397	5,296	(13,337)
Borrow / (Repay) DIP Term B	-	25,500	-	-	-
Borrow / (Repay) Exit Revolver	-	-	-	-	-
Borrow / (Repay) Exit Term	-	-	-	-	-
Change in Corporate Equity	4,689	-	-	-	-
	-	-	-	-	-
Net Cash Flow from Financing Activities	(11,633)	(19,687)	31,282	5,175	(13,464)
Net Change in Cash Position	(4,753)	4,370	-	-	-
Beginning Cash	5,383	630	5,000	5,000	5,000
Ending Cash Balance	$ 630	$ 5,000	$ 5,000	$ 5,000	$ 5,000

APPENDIX D

REORGANIZATION VALUATION ANALYSIS

APPENDIX D

REORGANIZATION VALUATION ANALYSIS

Jefferies & Co., Inc. (the "Jefferies") has advised the Debtors with respect to the value of the Reorganized Debtors.

For purposes of the Plan, the reorganization value (the "Reorganization Value") of the Reorganized Debtors is estimated to range from approximately $125 million to $155 million, with a mid-point of approximately $140 million. The Reorganization Value assumes an effective date (the "Effective Date") of December 31, 2005 and reflects the going concern value of the Debtors after giving effect to the implementation of the Plan. The Reorganization Value does not include excess cash, if any, remaining in the Reorganized Debtors after taking into account cash distributions required under the Plan. The Debtors are of the view that such excess cash, if any, is necessary to run the business and, therefore, should not be viewed as excess cash for valuation purposes. The Reorganization Value also does not include the Debtors' interests in Crescent Jewelers, the value (positive or negative) of any possible tax refund or net operating losses, or the value from any possible monetization of its credit portfolio.

The equity value (the "Implied Equity Value") of the Reorganized Debtors is estimated to range from approximately $58.8 million to $88.8 million. The Implied Equity Value reflects the difference between the Reorganization Value and the total amount of secured and priority claims that must be satisfied in connection with emergence from Chapter 11, not including the amount of the term loan sub-facility of the debtor-in-possession financing facility which is assumed to be converted to equity under the Plan. However, the assumed amount of such sub-facility for purposes of such conversion is approximately $28.3 million. When this value is deducted from the Implied Equity Value, the amount of such Implied Equity Value remaining for pre-petition creditors of the Debtors is between $30.5 million and $60.5 million.

Jefferies assisted the Debtors in arriving at the Reorganization Value. In doing so, Jefferies has assumed and relied on the accuracy and completeness of certain unaudited projections prepared by the Debtors of the Debtors' results of operations, cash flow and related balance sheets (the "Projections"). The Projections reflect numerous assumptions, including assumptions with respect to the future performance of the Reorganized Debtors, the performance of the industry, general business and economic conditions and other matters, most of which are beyond the Debtors' control. Numerous factors may affect the future financial performance of the Reorganized Debtors and the accuracy of the Projections. Therefore, the actual results achieved during the projection period will vary from the projected results, and may vary substantially. Indeed, and without limiting the foregoing, Section VI.H. of the

Disclosure Statement describes that the professional fees assumed in the projections may be reduced in accordance with fee accommodations and/or alternative fee arrangements reached with various professionals which, to the extent realized, may result in an increase in the Reorganization Value. No representations can be or are being made with respect to the accuracy of the Projections, or the ability of the Reorganized Debtors to achieve the projected results.

In arriving at the Reorganization Value, Jefferies performed certain quantitative analyses and made determinations as to the most appropriate and relevant methods of financial and comparative analysis and the application of those methods to the particular circumstances of the Reorganized Debtors. Jefferies assigned relative weights to various analyses and factors and also made qualitative judgments as to the significance and relevance of each analysis and factor based on the Debtors' circumstances, including their operating performance.

Set forth below is a summary of the material financial analyses performed by Jefferies in estimating the value of the Reorganized Debtors.

1. Comparable Public Company Analysis

In a comparable public company analysis, a subject company is valued by comparing it to publicly held companies in reasonably similar lines of business. The comparable public companies are chosen based on, among other attributes, their similarity to the subject company's business, presence in the market and size. The price that investors are willing to pay in the public markets for each company's publicly traded securities represents that company's current and future prospects as well as the rate of return required on the investment.

The analytical work performed includes, among other things, a detailed financial comparison of selected metrics from each company's financial statements. Numerous financial multiples and ratios were developed to measure each company's valuation and relative performance. Some of the specific analyses entailed comparing the enterprise value (defined as market value of equity plus debt minus excess cash) for each of the comparable public companies to their sales, EBITDAR (defined as EBITDA plus rent expenses) and EBITDA (defined as earnings before interest, taxes, depreciation and amortization). Where appropriate, Jefferies applied these multiples to the relevant selected financials of the Reorganized Debtors to determine an implied range of enterprise and equity values for the Reorganized Debtors.

2. Discounted Cash Flow Analysis

The second valuation methodology used to value the Reorganized Debtors was the discounted cash flow method. The discounted cash flow method relates the value of an asset or business to the present value of expected future cash flows to be generated by that asset or business. The discounted cash flow method is a forward-looking approach that discounts the

expected future cash flows by a theoretical or observed discount rate. The Reorganized Debtors' projected cash flows were discounted to a present value as of the Effective Date using a discount rate equal to the estimated weighted average cost of capital for the Reorganized Debtors. For purposes of the valuation analysis, Jefferies used a range of discount rates which reflects a number of company and market specific factors, including business execution risk and the nature and derivation of the projections set forth in the Business Plan as well as the cost of equity for companies that Jefferies deemed comparable.

3. Precedent Transaction Analysis

The third valuation methodology used to estimate the value of the Reorganized Debtors is the Precedent Transaction analysis. The comparable acquisition analysis entails calculating multiples of revenues and EBITDA based on prices paid (including any debt assumed and equity purchased) in announced mergers and acquisitions involving companies viewed to be similar to the Reorganized Debtors. These multiples were then applied, where deemed relevant, to the projected financials of the Reorganized Debtors to determine an implied range of enterprise values.

In connection with their analysis of the value of the Reorganized Debtors, Jefferies (i) reviewed certain historical financial information of the Debtors, (ii) reviewed the Projections and the assumptions underlying them, (iii) reviewed certain internal financial and operating data of the Debtors, (iv) met with certain members of management to discuss the Debtors' operations and future prospects (including the operational changes contemplated by the Business Plan), (v) reviewed publicly available financial data and (vi) considered certain economic and industry information relevant to the Debtors' operating business and conducted such other analyses as Jefferies deemed appropriate.

As noted above, Jefferies assumed and relied on the accuracy and completeness of all financial and other information that was provided to or discussed with it by the Debtors as well as publicly available information, and did not assume any responsibility for independently verifying this information. Jefferies also assumed that all financial information and analysis (including the financial projections and forecasts) provided by the Debtors was prepared in good faith and on bases reflecting the best currently available judgments and estimates of management of the Debtors.

Jefferies has not expressed and is not expressing any opinion with respect to the financial information, analyses and forecasts provided by the Debtors or the assumptions on which they are based.

In addition, Jefferies has not made or or obtained an independent valuation or appraisal of the assets or liabilities of the Reorganized Debtors, and no such independent valuation or appraisal was provided to Jefferies in connection with the valuation analysis.

The valuation analysis prepared by Jefferies is based on economic and market conditions as they existed and could be evaluated as of July 21, 2005. The Reorganization Value represents a hypothetical going-concern value for the Reorganized Debtors. It was calculated solely for the purpose of determining value available for distribution to creditors under the Plan and evaluating whether the Plan satisfied the "best interests test" under 1129(a)(7) of the Bankruptcy Code as well as establishing a reasonable estimate of the initial stockholders' equity for fresh-start accounting. The Reorganization Value does not purport to reflect or constitute an appraisal, a liquidation value or an estimate of the actual market value that may be realized through the sale of any securities to be issued pursuant to the Plan. The value of the Debtors' business is subject to uncertainties and contingencies that are difficult to predict. Consequently, the Reorganization Value is not necessarily indicative of any actual value, which may be significantly more or less favorable than the value set forth herein.

Additionally, the valuation of newly-issued securities is subject to additional uncertainties and contingencies, all of which are difficult to predict. Actual market prices of such securities at issuance will depend upon, among other things, conditions in the financial markets, the anticipated initial securities holdings of pre-petition creditors, some of which may prefer to liquidate their investment rather than hold it on a long-term basis, and other factors that generally influence the prices of securities. Actual market prices of such securities also may be affected by the Debtors' history in Chapter 11, conditions affecting the Debtors' competitors or the industry generally in which the Debtors participate or by other factors not possible to predict. Accordingly, the Reorganization Value does not necessarily reflect, and should not be construed as reflecting, any value that will be attained in the public or private markets. Finally, the Equity Value shown herein is based on the Reorganized Debtors' assumption regarding their capitalization on the Effective Date.

The valuation set forth herein reflects the assumption that the operating results anticipated by management and reflected in the Business Plan can be achieved in all material respects, including comparable store sales growth and income improvement. To the extent that the valuation is dependent on the Debtors' achievement of the projections contained in the Disclosure Statement, the valuation should be considered speculative. The valuation also assumes (i) a successful and timely reorganization of the Debtors' capital structure, (ii) the Plan becoming effective in accordance with its proposed terms and (iii) the continuity of the present operating management of the Debtors following consummation of the Plan.

Because of the uncertainties discussed herein, neither Jefferies nor the Debtors assumes any responsibility for the accuracy of the valuation estimate.